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Remarks: Bob Kendrick

Congressman Heath Schuler

Chair Urban and Rural Entrepreneurship Sub Committee

Healthcare Issues

Let me thank you for the opportunity to speak to the impacts of the current health care environment on small business in the 11th Congressional district of North Carolina. Today I represent several constituents of small business.

As a business owner who offers consulting and hopefully growth strategies to a variety of small businesses in the region, I have many occasions to work with business owners on problems in establishing a presence and then managing growth. I currently serve on the Asheville Area Chamber of Commerce Board of Directors and represent the Small Business component as Vice Chair of Small Business and Entrepreneurship. This Chamber has for several years had a standing committee to seek a basis for suggested solutions to health care for the small business community.

I also represent one of the more successful US SBA Certified Development Corporations (CDC) who are chartered to support the growth of area small businesses with the premiere SBA 504 loan program. The Asheville Buncombe CDC has served small business since 1982 and recently this successful development corporation was recognized by SBA in Washington as one of two of the approximately 175 CDC's in the nation as a top CDC. We offer fixed asset loans across NC with a focus on the western region of the state. While health care is not a particular focus of either of these endeavors it has allowed me to recognize the limitations within our current system.

This region, as much of America, is a dynamic small business market. I would point to the two broad areas that represent small business. We have what 50 years ago was classified as mom and pop small business and today is more accurately defined as lifestyle businesses. These are smaller businesses that have been created to offer a financial return to the owners to support a lifestyle. They are not necessarily growth oriented but provide the multitude of goods and services to either a local marketplace or fill a particular niche in a broader economy. Our region, which for a number of years has been a magnet to relocation for quality of life reasons, is very active with these types of business. They are represented by independent restaurants, Bed and Breakfast operations, independent or franchised motels, food service. Interestingly with the regional medical care available in WNC these are often medical related businesses for specialty doctors, family practices and wellness programs. This lifestyle driven group is often the full range of service business in information technology, spas, entertainment and professional services.

The other category of small businesses are perceived a gazelles who are driven by a management philosophy to grow and expand from principles who may be related but are more often a group of owners who have combined talents and skill sets to focus on stronger and consistent growth. This is a much smaller segment of small business and is most often niche driven and often does not depend on local economies and patterns within these economies to support a market driven growth expectation. I perceive both of these business orientations are severely limited by our current health care dilemma.

On one hand we have medical providers who struggle to offer quality care with reasonable business returns. They seek technology driven productivity or an industrial approach to assembly line medicine to change their operational systems to cover the cost of running their business. These systems are driven by the multitude of reimbursement programs, cost containment and provider limitations. These medical practitioners deeply care about their patients. These Doctors also need respite to allow vacations, time with their families, additional medical training to stay current on best practices. We are seeing the market place react to uni-groups being formed to allow some economies of scale and offer scheduling benefits. The family doctor who made house calls is long gone due to the constraints of medical practice limitations. We see many medical related businesses move to cash only basis especially in allied fields of chiropractic or physical therapy. Reimbursement schedules that become just a few dollars above the cost of providing the care and are more often becoming adversarial relationships between the provider and insurance companies seem to be driving this transition. Dental practices may no longer offer to file insurance and expect payment at time of delivery. These are cash flow and margin driven approaches to manage a small business,

The demands and requirements of medical business owners for increasing liability insurance with spiraling costs as a factor of doing business in health care. By example, the cost of doing business when a medical professional retires or sells their practice has to include the cost of tail insurance to protect the medical practitioner post practicing should a future issue arise when some medical liability could occur months or years later.

Our most excellent acute care providers and hospitals are forced to cost shift as we who manage to afford insurance are paying for services to offset the costs of the uninsured who utilize the same facilities. Currently Buncombe County has a labor force of approximately 122,000. Recent discussions in this community relate we have approximately 40,000 individuals who do not have any form of health insurance. It is expected that 22,000 of this group are employed and do not have a benefit of health insurance so our uninsured but employed population continues to grow. As an insured individual, a weekend emergency room visit to receive a few stitches for a cut cost several hundred dollars. Medical technology impacts where a Lithotripter procedure for kidney stones cost over \$20,000 for a one hour procedure on an "out patient" basis.

Small businesses that are facing double digit premium increases annually are clearly focused on the employees who they value and want to retain as contributing to the businesses success. They are managing this issue by increasing deductibles, requiring employees to contribute to insurance costs, dropping family coverage and having to choose between benefits or merit pay increases. Small business that lose valuable employees due to benefit issues or recognize they cannot offer health care put a larger percentage of the population into the uninsured category.

As a business owner I recognize we cannot offer a benefit of employer paid insurance. Any single head of household that works with our business must make the same decision we do and choose an individual plan and support this cost from the income stream generated by working. We and many other businesses consistently see potential employees who have, through another family member, a health benefit and this is an individual approach to address health care costs where the significant other may only retain this employment because of a health plan.

All business is aware of competitive advantage and competition for clients or sales regardless of size or business sector. If I have a five employee business and my competitors don't offer an insurance benefit then my costs of doing business will put me at a disadvantage if I step up to the plate and offer this benefit. If all those who are potential employees have skill sets across my industry group do not expect the benefit of health insurance by employers we lower the bar on health issues. If my industry group does consistently offer health benefits then my charge is to offer a benefit that gives me a competitive advantage to attract or retain a valuable employee. Regulation or health care cost does not drive this decision. It is driven by competitive factors. The growth of health savings accounts are a reaction to health care costs. Federal changes in tax deductions for health related premium expense are a benefit yet they haven't offered sufficient benefit to make health insurance offerings competitively advantageous.

As a lender with SBA, we are also acutely aware of the continuing impacts of our dilemma with health care to the worthy individuals who are seeking to finance the multitude of needs of expanding or start up business interests. One impact is the numerous individuals who, under current lending and underwriting practices, have seen a well managed credit history severely impacted by collection efforts for family medical care expenses that cannot be paid, are sent to a collection agency and becomes a public record. The costs of financing business are predicated on a demonstrated ability to meet prior obligations and credit scoring benchmarks. Individuals who would otherwise be excellent risks are denied credit or forced to pay higher rates for business lines of credit or term loans due to medical related blemishes on past credit histories.

Regarding solutions to this dilemma, the direction we as a society need to take is with a multiple approach to address the various components.

The aging of America is currently more obvious in this region where we attract an active retiree has shown we pay on average more for health care plans than other markets in North Carolina. We have fewer providers offering products in this region limiting the competition factor and the cost of this care is more than alternative markets.

Potential health care savings would be available if primary care included better screenings for early detection of potential life threatening illness or could eliminate more expensive treatments. Wellness solutions are needed on issues driven by poor lifestyle choices or obesity. This could point to other precursors of expensive treatment regimes so often a cost issue on insurance.

Small business in North Carolina cannot form or participate in Association plans where MEWA or Multiple Employee Welfare Associations can bond to have a larger group setting and negotiate a provider for health care. Our Chambers of Commerce or the State Chamber could offer alternatives or compete with Insurance offerings. Other issues are limitations on the state level as to how many employees must participate in a business group plan. North Carolina requires 75% participation and this is often less in adjoining states.

I thank you for the time and opportunity to offer comments and contribute in some small way to defining solutions to this important issue.